

**DEPARTMENT OF FIRE PROGRAMS
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE PERIOD
JULY 1, 1999 THROUGH DECEMBER 31, 2000**



AUDIT SUMMARY

Our audit of the Department of Fire Programs for the period July 1, 1999 through December 31, 2000 found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that we consider reportable conditions; however, we do not consider any of these to be a material weaknesses; and
- material compliance with applicable laws and regulations tested.

Our audit findings are discussed in the section entitled, "Agency Background and Financial Information."

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March 2, 2001

The Honorable James S. Gilmore, III
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Department of Fire Programs** (the Department) for the period July 1, 1999 through December 31, 2000. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Department's internal control, and test compliance with applicable laws and regulations. We also reviewed the Department's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Department's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenditures
Revenues

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Department's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations.

The Department's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide

reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Department properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Department records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions are described in the subsection titled, "Agency Background and Financial Information." We believe that none of the reportable conditions are material weaknesses.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Department has developed and began implementing corrective action plans with respect to the previously reported findings, "Improve Controls Over Cash Receipts" and "Improve Procedures over Receivables," and in response to our September 1999 letter regarding the Fire Services Grant Fund program. Accordingly, we included these findings in the subsection entitled, "Status of Corrective Actions."

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on April 16, 2001.

AUDITOR OF PUBLIC ACCOUNTS

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STATUS OF CORRECTIVE ACTIONS

The Department of Fire Programs (the Department) continues to improve its internal controls and address matters raised in our prior reports. Our previous audit noted inadequate controls over cash receipts and a need to improve procedures over receivables. To assist him in identifying additional areas for improvement, the Director requested a review by the Department of the State Internal Auditor during fiscal year 2000.

The Department prepared a corrective action plan in the fall of 2000, which addresses the concerns of the Auditor of Public Accounts and the Department of State Internal Auditor. The Department has begun implementing their corrective action plan.

In December 1999, the Department adopted written administrative policies and procedures over the Fire Services Grant Fund program in response to the recommendations made during our September 1999 review of the program. Also, in February 2001, the Virginia Fire Services Board (VFSB) adopted a spending plan that reflects projected income and planned disbursements for the program through fiscal year 2005.

AGENCY BACKGROUND AND FINANCIAL INFORMATION

The Department provides financial assistance to local fire departments, as well as training and technical assistance. They have a central office in Richmond, five area offices, and two program offices. The Department also operates a bookstore in Richmond that has training manuals and supplies. The Department receives support from several other agencies. The Department of Criminal Justice Services' staff performs fiscal processing, the Department of Personnel and Training's staff performs personnel functions, and the Department of Accounts' payroll service bureau processes the Department's payroll.

The Department's funding comes primarily from an annual transfer from the State Corporation Commission (SCC). The SCC collects one percent of the total direct gross premium income from certain property and casualty insurance companies and transfers it to the Department in June. The Department also collects revenues for the sales of training materials and fees for some training programs.

Aid To Localities

The Code of Virginia requires the Department use \$1.1 million of the SCC transfer each year for burn buildings and dry hydrants. The Department uses 25 percent of the remaining SCC transfer to cover operating expenses, including the costs of training programs and facilities. The Department then disburses the remaining SCC transfer to localities for fire service operations such as training, equipment, and improving or constructing training facilities. The Department must make a minimum disbursement of \$4,000 to towns and \$10,000 to counties and cities that have populations below an established threshold. Those with populations exceeding the threshold receive an amount based on a formula using the population of each locality.

The minimum aid amounts of \$4,000 and \$10,000 were last increased in fiscal year 1995 and may be out of date. We recommend that the Department and the VFSB periodically review the minimums and recommend any increases to these amounts. As the SCC transfer increases, the counties, cities, and towns that receive the minimum disbursement do not benefit from the increased amounts available to localities. For example, all localities with populations exceeding the minimum received a 10.32 percent increase in aid in fiscal year 2000 compared to a zero percent increase for localities not meeting the minimum population amounts.

During fiscal year 2000, the Department distributed a total of \$9,247,020 in aid. The top ten recipients of 2001 aid received a total of 43 percent of the total aid distributed statewide as shown below.

<u>Locality</u>	<u>Population</u>	<u>Amount Distributed</u>
Fairfax County	787,191	\$1,117,963
City of Virginia Beach	393,089	558,262
City of Norfolk	261,250	371,025
Henrico County	217,849	309,388
Prince William County	210,376	298,775
Chesterfield County	209,564	297,621
City of Richmond	202,798	288,012
City of Newport News	171,439	243,476
Arlington County	170,897	242,707
City of Chesapeake	151,982	<u>215,844</u>
	Total	<u><u>\$3,943,073</u></u>
Percentage of total aid distributions to localities		43%

As would be expected, the heavily populated localities dominate the receipt of aid. For the 2001 distribution, three percent of the localities alone received 43 percent of the total aid.

Automation

The Department's central office has a network that they use for file and printer sharing. Most of the area offices are only beginning to develop networks or are running stand-alone personal computers. Each area office maintains hard-copy records and keeps some training information on their computers such as the instructor, attendees, and cost. However, the area offices do not have access to the Department of Information Technology's mainframe system where the centralized training database is maintained. Instead area offices send student training records into the central office where they are scanned and imported into the centralized database.

The National Board on Fire Service Professional Qualifications recently audited the Department to determine if they met national accreditation standards for training. This team found the Department's computer environment antiquated due to the lack of networking and the area offices' inability to access the centralized database.

The Department plans to move from a mainframe database to a network database that area offices can access and update. Remotely accessing the centralized database to obtain training records will be more efficient than searching through hard copy files.

The Department currently lacks formal policies and procedures pertaining to system security, system backup and recovery, and document retention. Further, they have not prepared a risk analysis that identifies mission critical functions.

As the Department moves forward with their systems development, we recommend they prepare a risk analysis to identify threats and vulnerabilities to their systems and to aid in the creation of reasonable policies and procedures.

DEPARTMENT OF FIRE PROGRAMS
Richmond, Virginia

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